

Wealth Management Review



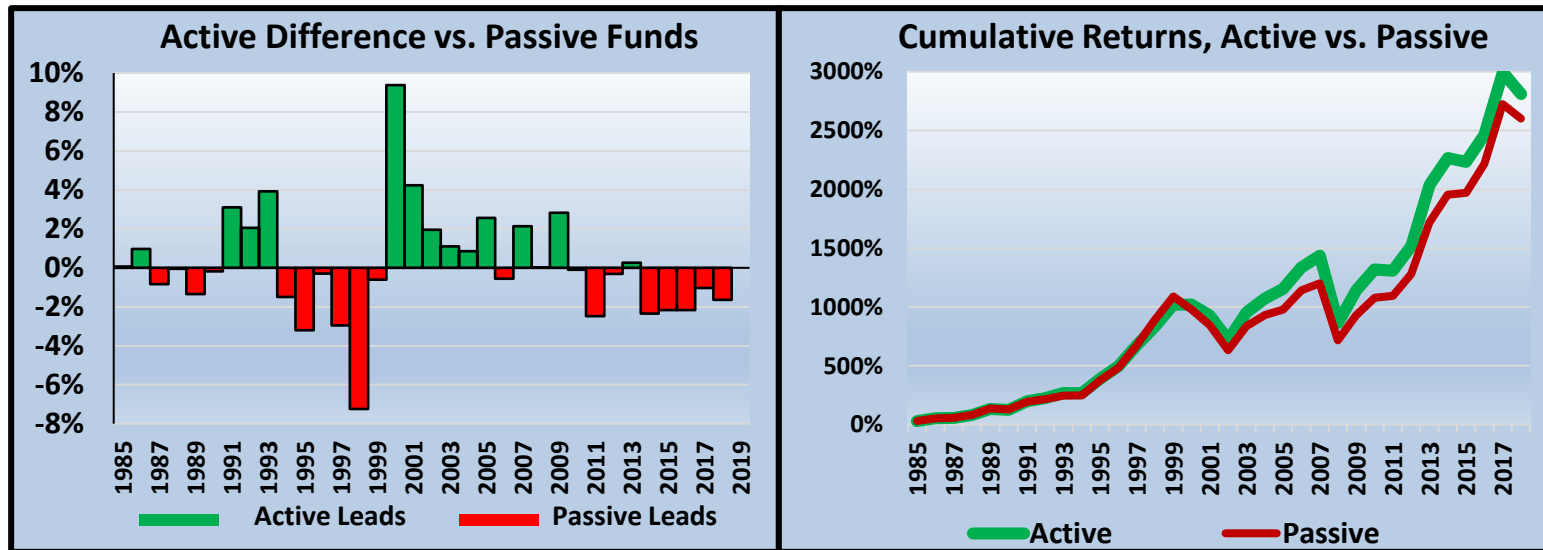
Presented to: City of Berlin

Date: August 31, 2021

Presented by: Daniel Hover CFP, MSFP

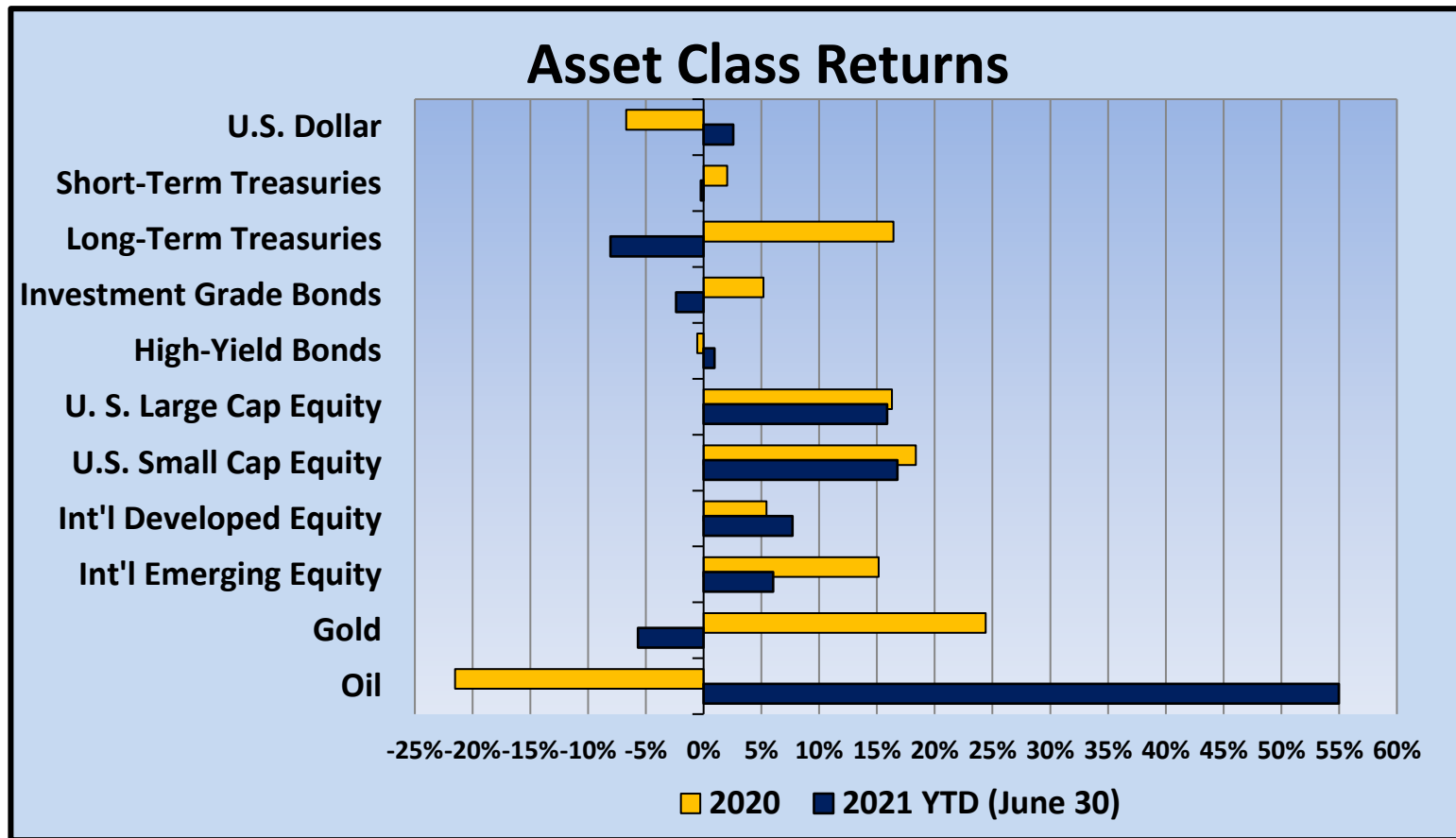
The Case for Active Management

- Active managers tend to outperform during bear markets, while passive managers mostly do well during bull runs
- Despite five straight bad years, active managers still have a cumulative 210 bps lead since 1985



Source: Morningstar, Eastern Bank Wealth Management

Asset Allocation

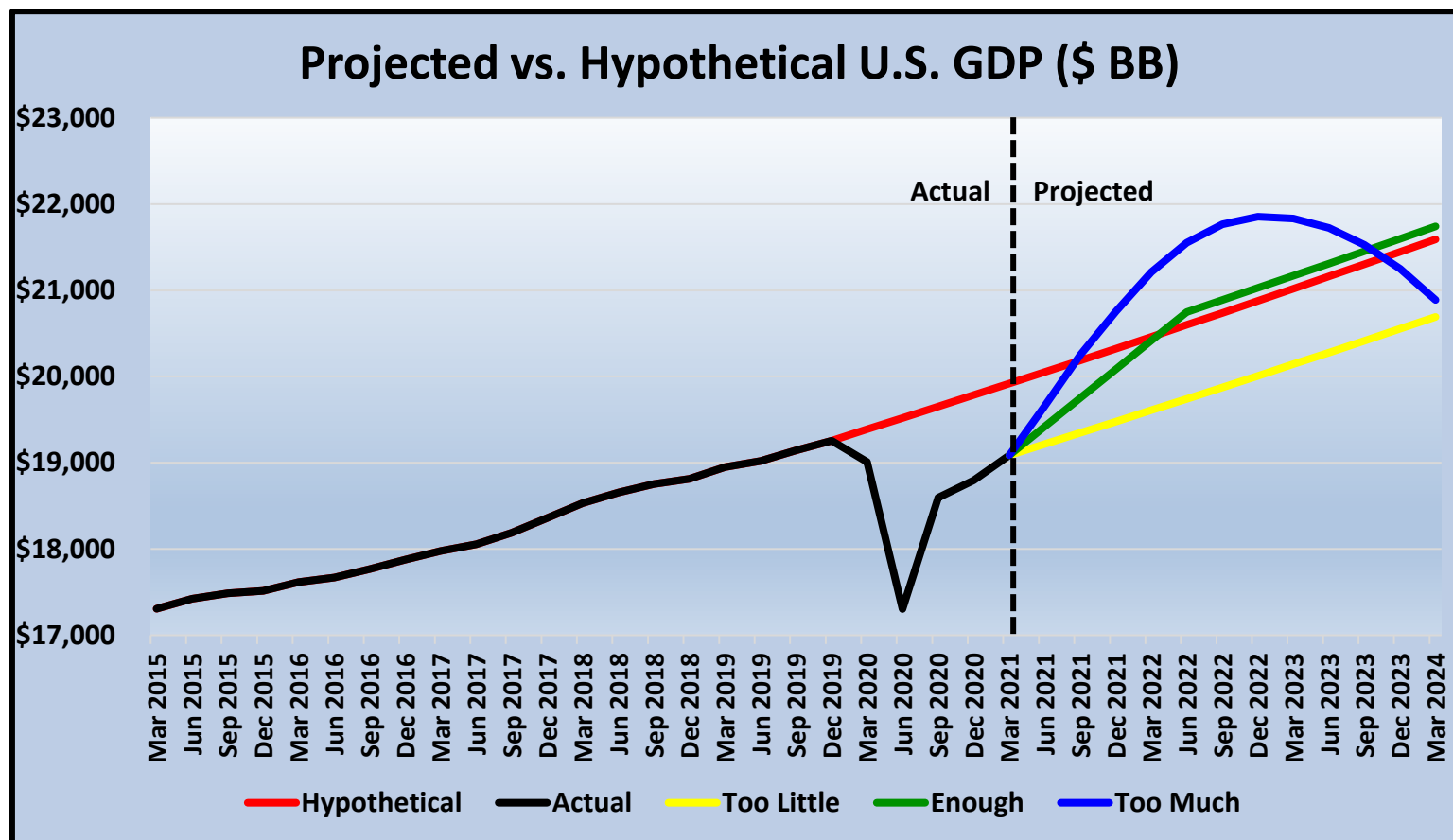


Source: FactSet, Eastern Bank Wealth Management

Recent Portfolio Changes

- Tactical asset allocation
 - Rebalanced portfolios in early January 2021, maintaining slight equity tilt
 - Increased allocation to international equities vs. U.S.
 - Shifted bond portfolios to expect somewhat higher inflation, lower credit risk
- Equity trades (not all names in all accounts)
 - *Purchases and additions:* Accenture, Advanced Micro Devices, Ameren, Ashland Global, AutoDesk, Capital One Financial, ConocoPhillips, Darden Restaurants, Dow Chemical, Marriott International, Oshkosh, Thermo Scientific, TJX Companies, United Health Care
 - *Sales and trims:* Air Products & Chemicals, AT&T, Chevron, CVS Health, Home Depot, IBM, Illinois Tool Works, McDonald's, Merck, Procter & Gamble, Salesforce.com, Verizon Communications, Viatris, Xcel Energy
- ETF and mutual fund transactions
 - *Purchases:* BlackRock Global Impact Fund, Calvert Income Fund, Conestoga Small Cap Fund, iShares ESG 1-5 Year Corporate Bond Fund, iShares Russell 1000 Value ETF, SPDR Blackstone Senior Loan Fund
 - *Sales and Trims:* Hartford Global Impact Fund, iShares Russell 2000 ETF, SPDR S&P 500 ETF, iShares 3-7 Year Treasury Bond ETF

Economic Outlook

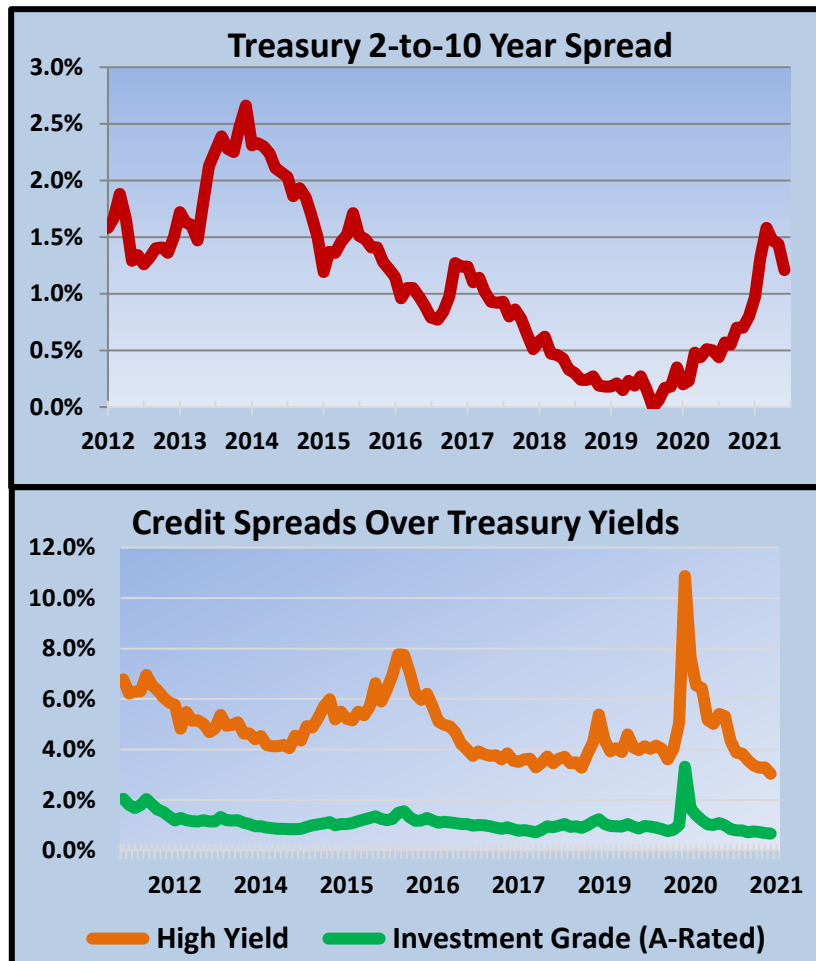


Source: Commerce Department Bureau of Economic Analysis, Eastern Bank Wealth Management

Asset Allocation: Current Posture

- Outlook
 - U.S. economic recovery is gaining momentum, spurred by vaccinations, stimulus checks, and jobs recovery
 - Inflation is a legitimate short-term concern: Excessive money supply, recovering demand, and supply chain disruptions raise risk of too much money chasing too few goods and services
 - Significant labor market slack tempers excessive optimism, but also tempers fears of inflationary spiral
- Strategy
 - Overweight to equities reflects improving economic outlook and lack of opportunity in fixed income; tilt has expanded since January due to stock market outperformance vs. bonds
 - Equity portfolios tip toward pro-cyclical and value stocks
 - Fixed income portfolios avoid duration risk, seek credit risk

Market Monitor: Fixed Income



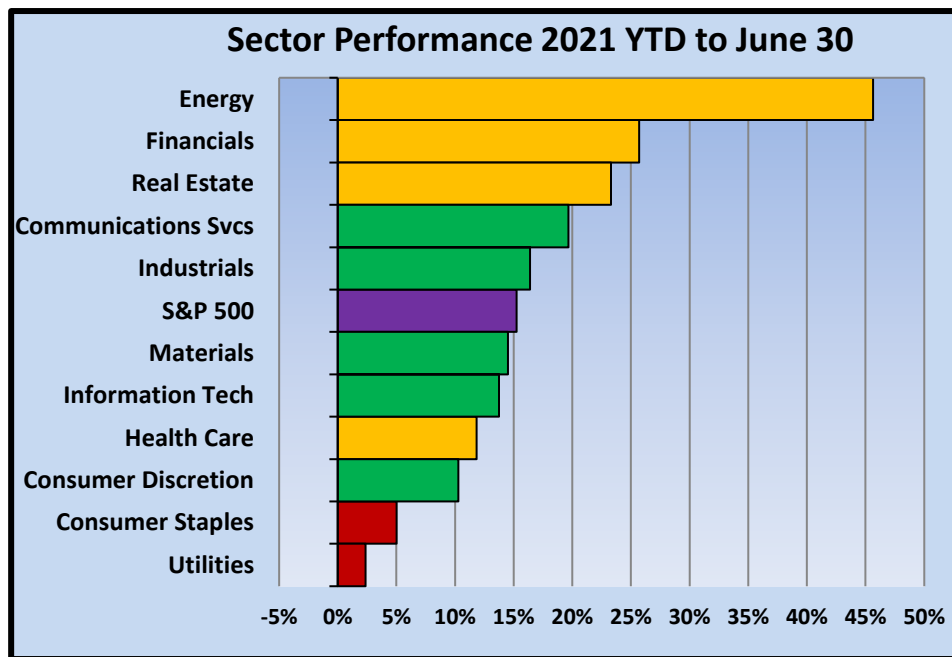
- Longer-term interest rates rose sharply from late 2020 through May, then dipped in June. Money is flooding the Treasury market from overseas, where rates remain close to zero.
- The yield curve has steepened; the 2-to-10 year spread is now close to its historical average.
- Credit market spreads have tightened sharply. Top-quality corporate debt now trades less than 1% above Treasury debt. High-yield bonds and bank loans are close to record low rates, as investors anticipate further economic gains.

Laddered Fixed Income Strategy

- Outlook
 - As Covid-19 caseloads diminish while vaccination rates increase, the U.S. economy is regaining its mojo; supply chain disruptions and some shortages are short-term obstacles, while improving labor markets and rising consumer confidence suggest longer-term gains.
 - The European Central Bank and the Bank of Japan are both committed to their negative-rate policies, while the Federal Reserve has explicitly rejected the idea as unhelpful and risky. U.S. yields remain well above other sovereign rates, attracting capital.
- Strategy
 - Our laddered portfolios consist of debt securities maturing over a nine-year period. This strategy provides a relatively stable stream of interest income with minimum trading activity. Benchmark-relative performance will vary due to changes in the shape of the yield curve or price movements in lower-quality investment grade securities.

Market Monitor: Domestic Equity

- U.S. stocks closed the first half of 2021 at all-time highs, gaining 16%. Pro-cyclical “value” stocks and small-caps led the recent rally until June, when while technology and communications stocks revived.
- Energy stocks rode rising oil prices to leadership, and financials gained from a steeper yield curve. Supply shortages drove up materials prices.



- The S&P 500 index's 1.5% dividend yield is at parity with the 10-year Treasury yield, suggesting that stocks are still attractive relative to bonds.
- Earnings estimates are rising faster than stock prices, so P/E ratios are lower now than they were at year-end; expectations may be too optimistic.

Domestic Equity Strategy Review

- Outlook
 - The Covid-19 pandemic is finally fading, as consumers and businesses are returning to normal economic activity. Debate centers around whether the recovery will be short and steep or halting and prolonged. The sharp recovery has led to some supply shortages and commodity price inflation. It may take several years for the U.S. to recover all of the jobs lost to the pandemic.
 - Service industries – the backbone of the U.S. economy – are finally reviving; demand is returning, and plenty of slack is available. Travel, entertainment, discretionary retail and similar sectors account for 20% of jobs and GDP, but only 7% of S&P 500 profits.
- Strategy
 - We remain fully invested. Domestic equity portfolios remain diversified across all sectors of the economy. We have added selectively to risk where valuations and prices have been most severely pummeled.

Market Monitor: International Equity

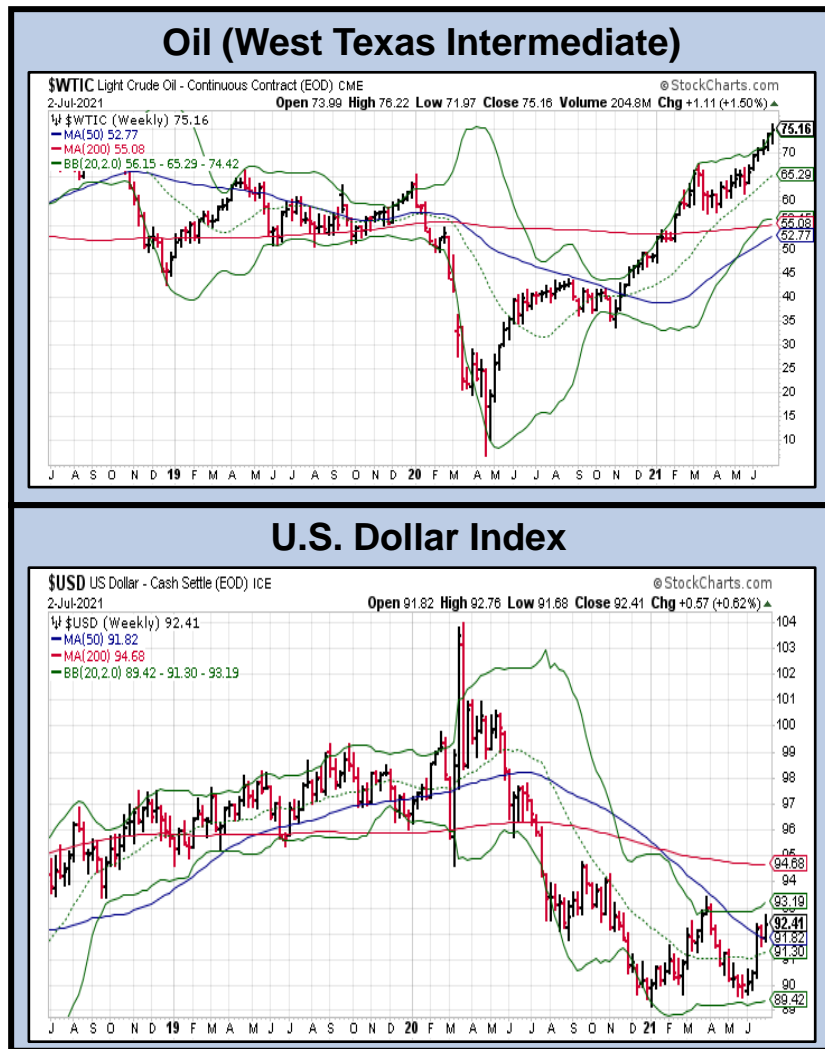


- While U.S. stocks pushed higher through June, foreign markets stalled. Europe's and India's struggles to contain Covid and vaccinate their populations have spooked equity investors. Valuations are below American levels, but so too are EPS growth rates.
- Emerging markets have drifted off their recent highs, out of fear that rising U.S. interest rates will adversely affect currency exchange rates. India's Covid nightmare has also dampened investors' interest in these markets. China, last year's standout, has slowed sharply.

International Equity Strategy Review

- Outlook
 - We think international markets offer both diversification and risk-management benefits. Valuations remain below U.S. levels, which limits downside risk, but fundamentals are still fragile. These are long-term investments that may take time to play out fully.
- Strategy
 - We closed out our underweight allocation to foreign markets in early 2021; our Multi-Asset portfolios are now neutrally allocated compared with their benchmarks; this has not helped performance year-to-date. Outside the U.S., we still favor emerging markets.
 - Developed markets are under pressure from Covid-19 resurgence and the ECB's imposition of negative interest rates in the Eurozone, but Brexit appears to have been resolved without a crisis.

Market Monitor: Other Asset Classes



- Oil prices have soared. OPEC has held output in check, while demand has recovered along with global economies. Retail gasoline prices in the U.S. are back to pre-pandemic levels.
- The U.S. dollar lost 6% in 2020 but gained some of it back this year. Global investors are buying dollars because yields on other currencies remain significantly lower.
- Industrial metals have rallied and gold faltered as economic recovery has taken hold. Other commodities have rallied due to supply chain disruptions that should ease later this year.

Other Asset Classes Strategy

- Outlook
 - Commodity prices have rallied sharply while gold has faltered, as economies are reviving and consumer demand rises.
 - Private equity and venture capital returns have been lackluster, despite some well publicized recent IPOs. These asset classes are more correlated with public equities than their sponsors want to admit; high fees and borrowing costs hurt returns.
- Strategy
 - We don't hold commodities, an asset allocation decision that has benefited our clients over time but hurt portfolios more recently. We strongly doubt that high inflation is will be sustained, so we are skeptical that they can rally much further.
 - We do not recommend hedge funds, private equity, or venture capital. Historical returns have been lackluster, too much money is chasing too few ideas, and fees remain too high.

Endowment & Non-Profit Issues



- Program Income / Expenses
- Membership Income / Expenses
- Grant Income / Expenses
- Endowment and Other Income
- Endowment Investments
- Managing Cash Balances
- Managing Accounts Receivable
- Managing Working Capital
- Equipment Needs
- Facilities Needs
- Other Long Term Needs
- Health Insurance / Retirement Plans for Employees

Appendix

Scared of Heights?

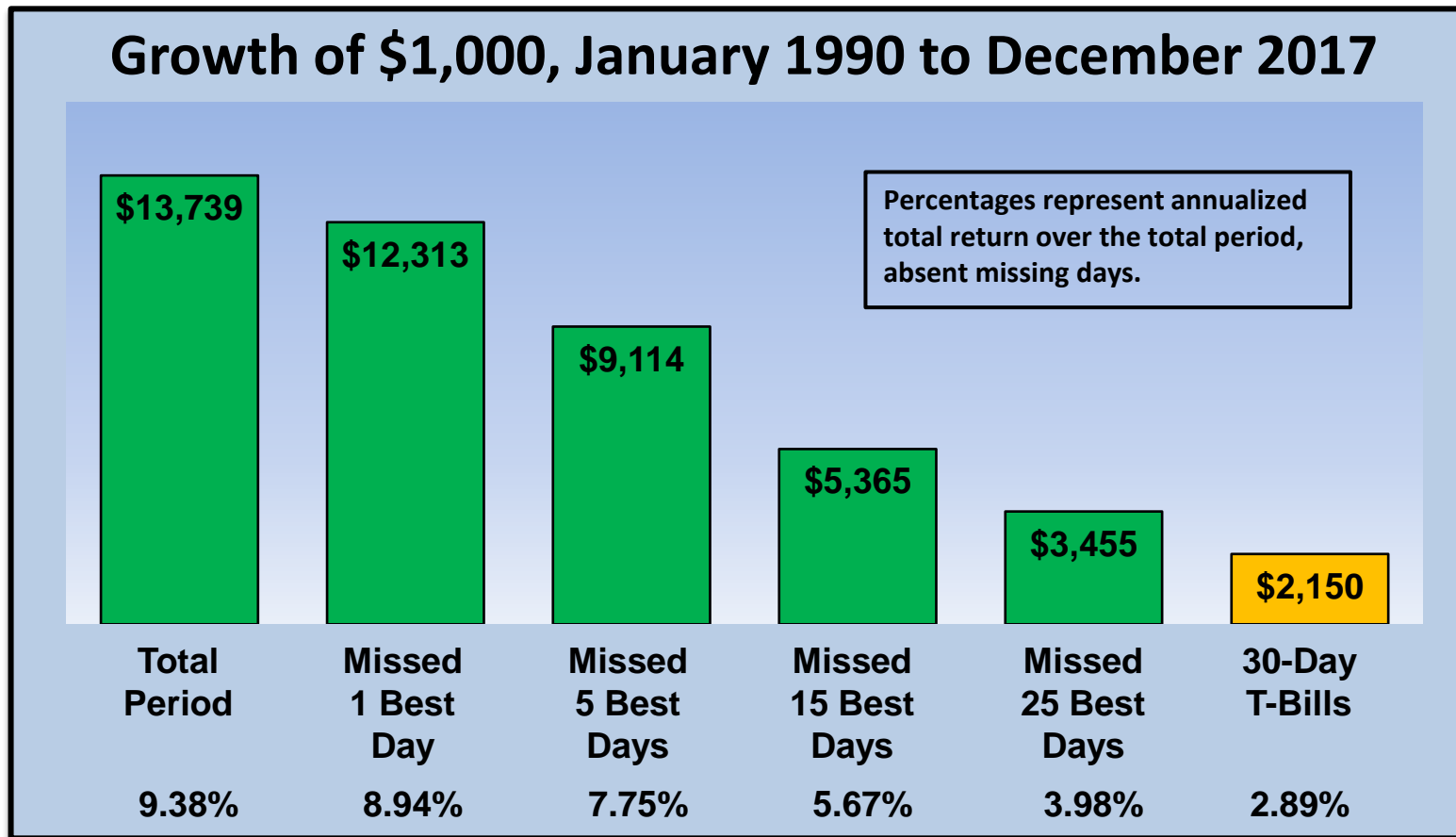
Stock Gains After Hitting New Highs

	Periods When Stocks Rise		Average Return	
	After New High	After Other Months	After New High	After Other Months
1 year	80.9%	75.0%	13.6%	12.3%
3 years	84.2%	83.5%	36.8%	39.6%
5 years	84.2%	87.5%	62.7%	71.5%

Source: Dimensional Fund Advisors

- Returns after new highs are no different from any other times
 - Of the 1,103 months from January 1926 to December 2017, stocks hit new highs in 331, or 30%
 - Performance following new highs was about the same as performance following all other months

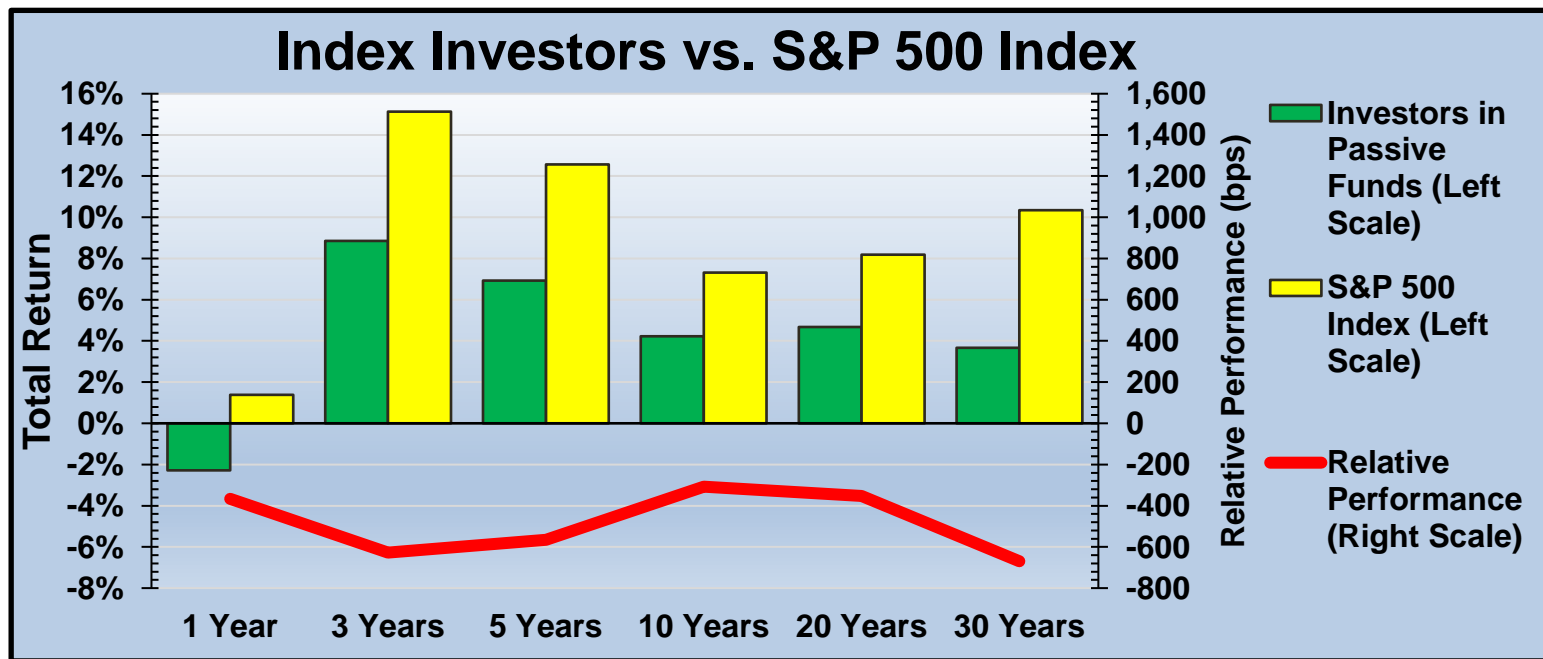
The Cost of Missing Out



Source: Dimensional Fund Advisors

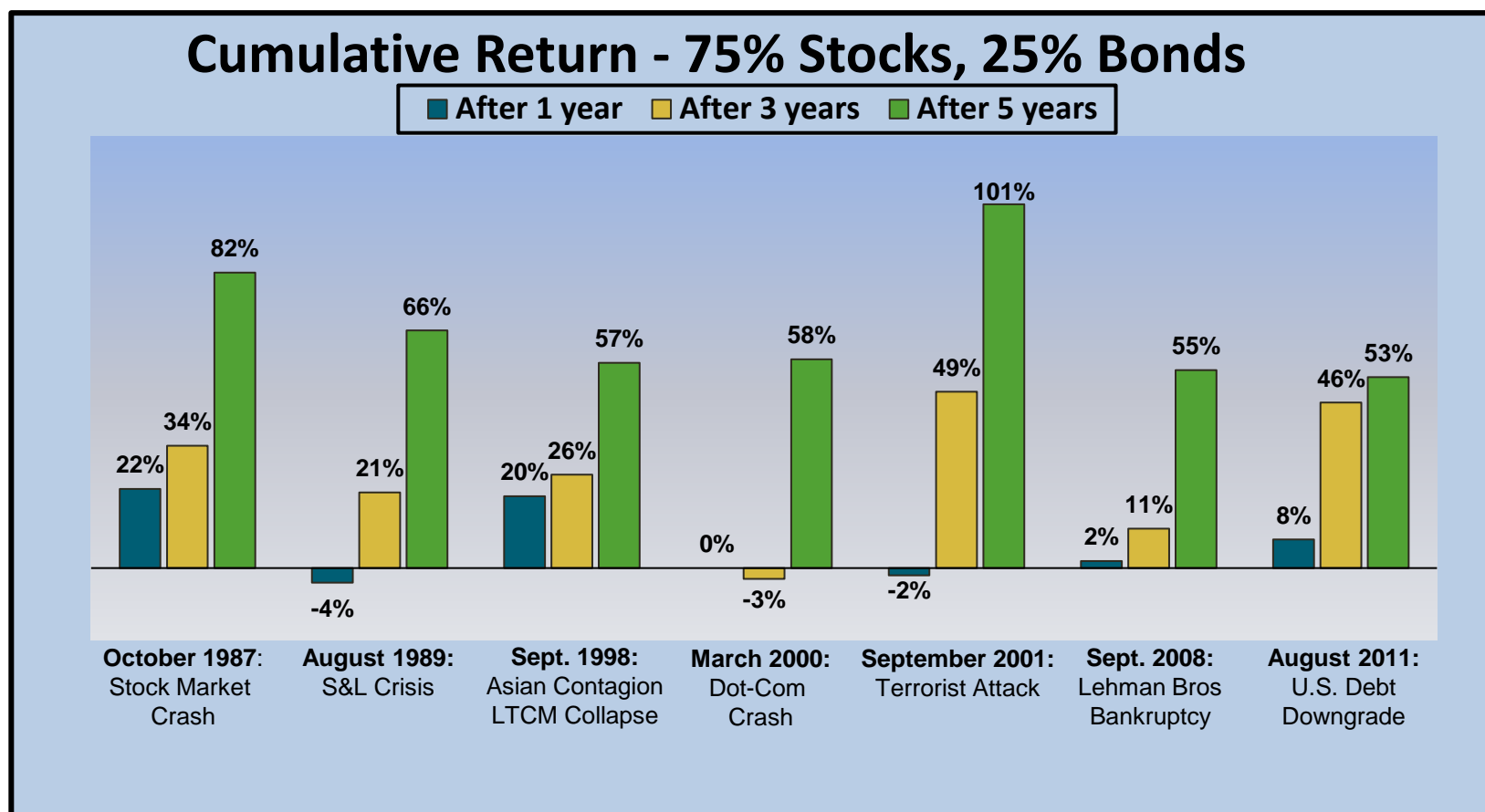
The Perils of Market Timing

- Do-it-yourself investors buy high, sell low
 - Index fund investors lag the index by 7% per year
 - Over 30 years, cumulative returns lag the index by 89%



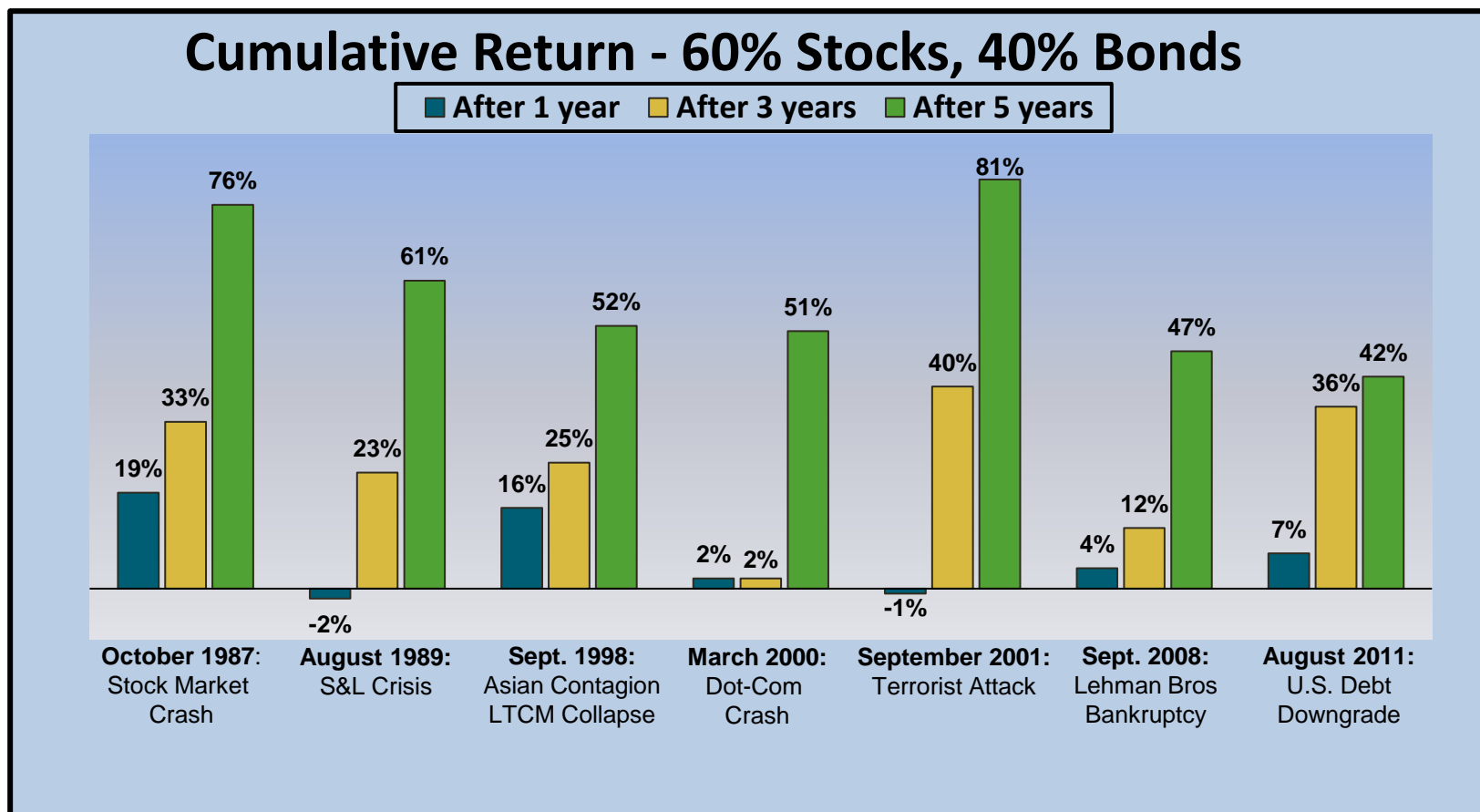
Source: Dalbar Inc.

Resilient Response to Crisis



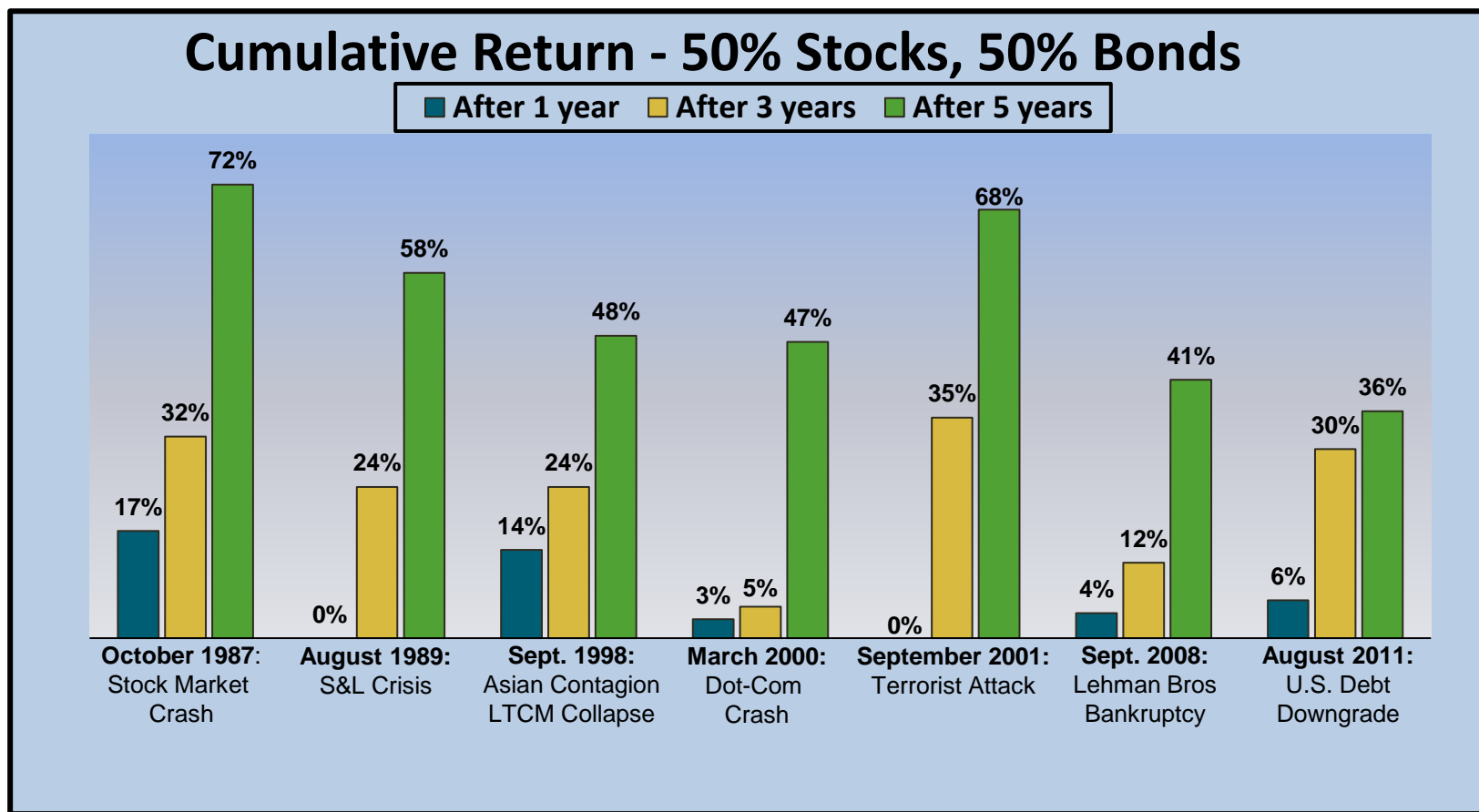
Source: Dimensional Fund Advisors

Resilient Response to Crisis



Source: Dimensional Fund Advisors

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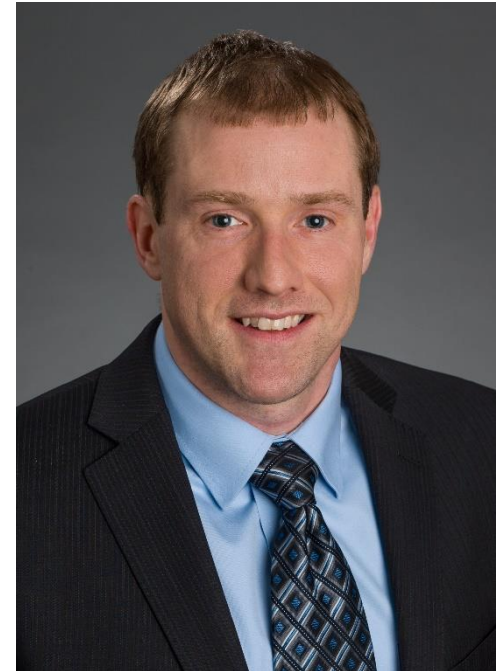
Michael A. Tyler, CFA®

- Chief Investment Officer, Eastern Bank Wealth Management
- Former Partner at Wellington Management in Boston
- Founder/CEO of investment boutique
 - Advised institutional clients on corporate takeovers and managed hedge fund
- Board Memberships
 - John F. Kennedy Library Foundation
 - Associated Industries of Massachusetts, state's largest trade group
 - Align Impact (immediate past chair), values-based investment mission
- Frequent commentator on national (CNBC) and regional TV
- Harvard MBA, Princeton BA



Allen Laine, CFA®

- Vice President, Eastern Bank Wealth Management
 - Responsible for research of individual companies, ETFs, and mutual funds
 - Investment Committee member focusing on equity markets, securities, and ESG initiative
- Former equity analyst and portfolio manager at RBC Global Asset Mgmt.
 - Emphasis on technology, basic materials, insurance, telecom, and utilities
- Former institutional relationship manager at Wellington
- Former investment operations specialist at BlackRock
- Boston College MBA, Drexel BS – Business Administration



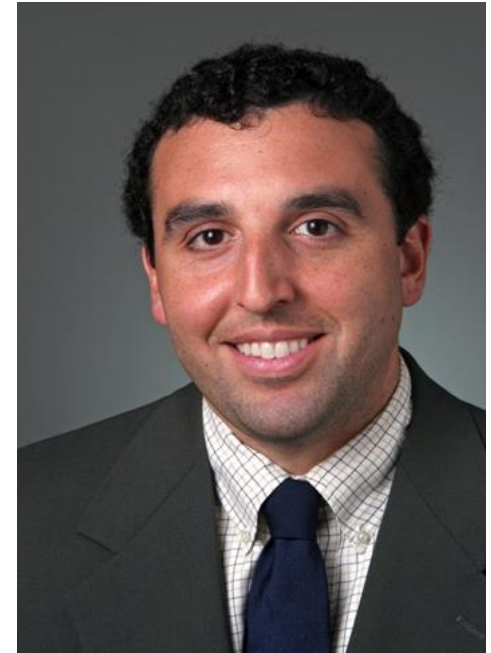
Jia Min, CFA®

- Vice President, Eastern Bank Wealth Management
 - Responsible for research of individual companies, ETFs, and mutual funds
 - Investment Committee member focusing on equity markets, securities, and ESG initiative
- Former sell-side senior equity research associate at Cannacord Genuity and Oppenheimer
 - Health care focus in biotechnology and medical devices
- Former buy-side equity research associate at U.S. Steel & Carnegie Pension Fund
 - Primary focus on information technology and payments
- Duke U. BSE, Biomedical Engineering & Electrical Engineering



Thomas Bussone III

- Fixed Income Strategist, Eastern Bank Wealth Management
 - Builds fixed income portfolios to reflect clients' objectives, asset allocation, and risk profiles
 - Provides analysis regarding market sentiment, trading environment, and potential investment opportunities
 - Executes trades for Treasury, Agency, municipal, and corporate debt
- Over 15 years of trading and investing experience
 - Joined Eastern Bank in Capital Markets Group
 - Trader on the Boston Stock Exchange
- Suffolk University MBA in Finance
- Catholic University of America BS



Tim Garvey, CFA®

- Vice President, Eastern Bank Wealth Management
 - Responsible for research on individual companies, ETFs, and mutual funds
 - Investment Committee member focusing on domestic and global economic trends that impact asset allocation decisions for client portfolios
 - Executes equity and fixed income trades for client accounts
- University of Massachusetts Amherst BBA in Finance
 - Commonwealth Honors College Scholar with Distinction



William J. Walsh, CFP

- Director, Eastern Wealth Management
 - Oversees 50 experienced professionals committed to providing trust and estate management, investment management, and financial planning to individuals and organizations across eastern Mass. & NH
- Over 25 years of leadership experience
 - Director / Planning Officer at Weston Financial Group, a wealth management firm in Wellesley
 - Senior Vice President, City Executive & Market Leader at Bank of America / US Trust in Boston; managed a team of 14 private client advisors and managers dedicated to serving high-net-worth clients.
 - Adjunct Professor, Boston University
- Salem State College BS – Business Administration;
Boston University diploma in Financial Planning



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